

SCHOOL AND INSTITUTIONAL TRUST FUND
BOARD OF TRUSTEES
350 N STATE ST STE 170
SALT LAKE CITY, UT
OCTOBER 23, 2015

Minutes

Board Members Attending: John Lunt, Duane Madsen, Kent Misener, and David Nixon.

Board Member Excused: Richard Ellis

Others Attending: Peter Madsen, SITFO; Thom Roberts, OAG; David Damschen and Allen Rollo, Treasurer's Office. Tim Donaldson, Paula Plant, Natalie Gordon and Aaron Garrett, USOE; Tracy Miller, Utah PTA; Margaret Bird, University Representative.

1. Call Meeting to Order

Mr. Misener called the meeting to order and had everybody introduce themselves.

2. Approval of Minutes

The first item of business was the approval of the minutes from the September 25, 2015 meeting. Mr. Nixon made a motion to approve the minutes, Mr. Duane Madsen seconded the motion. The motion was approved unanimously.

3. Investment Policy

Mr. Madsen noted that the Fund's Investment Policy Statement (IPS) has been updated to reflect the changes in governance structure and a change in the statement of objectives to maximize returns with reasonable and prudent levels of risk, while maintaining intergenerational equity. Ms. Bird suggested that the governance section also include references to the Enabling Act and Constitution. Mr. Madsen noted that portfolio rebalancing provisions of the IPS, under the Board Duties and Responsibilities section was removed to comply with statute. Board members expressed concerns about removing item 6 as a board responsibility. Mr. Rollo noted that page 12 of the IPS addressed rebalancing the portfolio. The Board also modified items 6 and 7 on page 6 to clearly delineate the duties and responsibilities of the Board. Item 6 was changed from "review" to "review and approve" hiring or termination of investment managers and consultants. Item 7 on page 6 was updated from "support" to "approve" the prudent modification of the IPS. Mr. Nixon questioned whether item V on page 9, relating to investment managers acknowledging and agreeing in writing their fiduciary responsibility to comply with the IPS applied to mutual funds. The Board decided to strike item V on page 9 from the IPS. Mr. Misener requested that the diversification section on page 12, item III remove "on a market capitalization-weighted basis" after "diversified" to reflect differences in fixed income management. The Board agreed with the change. Mr. Lunt made a motion to approve the IPS as amended, Mr. Duane Madsen seconded the motion. The motion to approve the amended IPS was approved unanimously.

4. Investment Consultant RFP

Mr. Madsen outlined the process for selecting the investment consultant(s) and noted that he would provide the Board with frequent updates during the process. The proposals will be reviewed by an evaluation committee composed of Mr. Madsen, Mr. Donaldson and Mr. Rollo. The Board will ultimately approve the selection of the consultant(s) based upon a recommendation from evaluation

committee. The Board decided that in order to maintain flexibility in evaluating the RFP, the scoring sheet will not be included in the RFP packet.

5. Staffing Update

Mr. Madsen is working with human resources to fill two positions.

6. Investment Review

Mr. Madsen noted that the estimated income available for distribution from the Permanent School Fund amounted to \$44.6 million in fiscal year 2017 compared to \$45.8 million distributed for fiscal year 2016. The amount distributed in fiscal year 2015 was approximately \$40 million.

He reviewed charts which showed: 1) the valuation of the US equity market based upon the Shiller PE ratio; 2) the relative attractiveness of various markets; 3) expected future real returns for domestic and emerging market equities; 4) equity valuations based upon an average of four different valuation measures; 5) and projected 7-year asset class real returns from GMO.

Mr. Madsen compared the current portfolio to a sample portfolio constructed by reducing the current domestic equity allocation by 15% and adding 5% each in emerging market debt, high yield bonds, and business development corporations to reduce volatility as measured by standard deviation from 12.8% to 12.0% and increase the portfolio yield from 2.22% to 2.92%, while maintaining the same overall expected return of 5.3%. Mr. Madsen noted that the addition of other income generating assets would benefit the current portfolio that is heavily US equity and fixed income oriented. Mr. Nixon expressed concerns about changing the current portfolio to increase income without having in place the governance structure framework to evaluate the proposed changes and that such a move would undermine the argument for changing the distribution policy.

7. SITLA and School Land Trust Program Update

Mr. Donaldson noted the School Children's Trust section is working to educate school community councils about the use of distributions, as well as the upcoming legislation proposing to change the distribution policy. Revenues from SITLA are expected to decline to the \$60 to \$80 million range from the \$80 to \$100 million range because of weak energy prices. Mr. Donaldson indicated that the Office of the Legislative Research and General Counsel will not put a constitutional note on the amendment and that changes to the Enabling Act were not expected to be necessary to change the distribution policy.

8. Other Items for Discussion

The Board recognized Mr. Ellis by adopting the following resolution:

'Be it resolved that the School and Institutional Trust Fund Board of Trustees recognizes and expresses appreciation to Richard Ellis for his dedicated service in his capacity as the Utah State Treasurer and Chair of this Board. His desire to vet other viewpoints, reach a consensus and come to the best solution will be remembered. Thank you Treasurer Ellis.'

Mr. Duane Madsen made a motion to approve the resolution, Mr. Lunt seconded the motion. The motion to recognize Mr. Ellis was approved unanimously.

There were no other items of business, so Mr. Duane Madsen made a motion to adjourn, Mr. Lunt seconded the motion. The board voted unanimously to adjourn the meeting.